

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SS-15 SP-02 EB-08 COME-00  
SIL-01 LAB-04 CIAE-00 INR-10 NSAE-00 PA-01 /067 W  
-----089400 181028Z /23

R 171904Z FEB 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 5999  
INFO AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL FRANKFURT  
AMCONSUL HAMBURG  
AMCONSUL MUNICH  
AMCONSUL STUTTGART  
USMISSION USBERLIN  
AMEMBASSY PARIS  
AMEMBASSY LONDON  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
AMEMBASSY VIENNA  
AMEMBASSY STOCKHOLM  
AMEMBASSY LUXEMBOURG  
AMEMBASSY COPENHAGEN  
AMEMBASSY LISBON  
AMEMBASSY OSLO  
AMEMBASSY MADRID  
USMISSION GENEVA

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USEEC ALSO FOR EMBASSY

E.O. 11652: N/A  
TAGS: ELAB, GW  
SUBJECT: SPD/FDP COALITION FACTIONS AGREE ON NEW PROGRAM  
TO INCREASE FINANCIAL VIABILITY OF OLD AGE INSURANCE  
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SYSTEM

REF: (A) BONN 00734; (B) BONN 02732

SUMMARY: THE SPD/FDP COALITION PARTIES IN THE BUNDES-  
TAG HAVE AGREED TO A SOCIAL SECURITY FUNDING SCHEME  
WHICH THE CABINET APPROVED ON FEBRUARY 15. UNDER THE

NEW ARRANGEMENT, THE "DYNAMIC" PENSION SYSTEM WHICH TIES OLD AGE PENSION ADJUSTMENTS TO THE GROSS EARNINGS OF WORKERS WOULD BE TEMPORARILY SUSPENDED. THE ANNUAL ADJUSTMENTS IN OLD AGE PENSIONS WOULD BE LIMITED TO 4.5 PERCENT IN 1979 AND 4 PERCENT IN 1980 AND 1981. CONTRIBUTIONS WOULD BE RAISED FROM 18 TO 18.5 PERCENT BEGINNING IN 1981. THE PROPOSAL DREW SHARP OUTCRIES FROM THE CDU/CSU OPPOSITION WHICH WARNED THAT IT WOULD NOT ALLOW "ITS GREATEST SOCIAL REFORM ACHIEVEMENT IN POST-WAR GERMANY" TO BE DESTROYED. THE UNIONS, BOTH DGB AND DAG, WERE NOT HAPPY WITH THE GOVERNMENT'S PROPOSAL. END SUMMARY.

1. AGREEMENT WAS REACHED AFTER INTENSIVE DISCUSSION AND COMPROMISE AMONG THE SPD AND FDP BUNDESTAG FACTIONS. ANNUAL ADJUSTMENTS OF BENEFITS WILL NO LONGER BE TIED TO THE GROSS EARNINGS OF ACTIVE WORKERS IN PRECEDING YEARS (THE SO-CALLED "DYNAMIC" PENSION SYSTEM), BUT WILL FOLLOW A FIXED SCHEDULE DURING THE NEXT THREE YEARS. AN ADJUSTMENT OF 4.5 PERCENT ON JANUARY 1, 1979 WILL BE FOLLOWED BY 4 PERCENT ON JANUARY 1, 1980, AND ANOTHER 4 PERCENT ON JANUARY 1, 1981. UNDER THE PREVIOUS SYSTEM, THE ESTIMATED ANNUAL ADJUSTMENT RATES WOULD BE 7.2 PERCENT IN 1979, 6.9 PERCENT IN 1980, AND 6.2 PERCENT IN 1981. DRAFT LEGISLATION WILL BE SUBMITTED TO THE BUNDESTAG IN MARCH.

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2. THE "GENERAL BASIS FOR THE COMPUTATION OF PENSIONS" (ALLGEMEINE RENTENBEMESSUNGSGRUNDLAGE), A STANDARD FOR DETERMINING NEW PENSION CLAIMS ARISING IN A PARTICULAR YEAR WOULD ALSO BE TIED TO THE FIXED RATES IN 1979, 1980, AND 1981.

3. BEGINNING IN 1981, THE CONTRIBUTION RATE IN OLD AGE INSURANCE COULD BE RAISED FROM 18 TO 18.5 PERCENT OF THE GROSS EARNINGS. THE INCREASE WOULD BE SHARED

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EQUALLY BETWEEN EMPLOYERS AND EMPLOYEES. IF BY 1981  
THE FINANCIAL HEALTH OF THE PENSION FUND HAS BEEN RE-  
STORED, THE INCREASE WOULD NOT BE IMPOSED AND THE OLD  
RATE COULD BE CONTINUED BY SIMPLE GOVERNMENT ORDINANCE  
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(RECHTSVERORDNUNG).

4. BEGINNING IN 1982, THE PRESENT FREE "MEDICARE"  
SYSTEM FOR PENSIONERS WOULD BE REPLACED BY A HEALTH  
INSURANCE SYSTEM WHICH WOULD REQUIRE THEM TO PAY REGU-  
LAR CONTRIBUTIONS BASED ON THEIR TOTAL INCOME (PENSION  
PLUS INCOME FROM OTHER SOURCES). THE INDIVIDUAL PEN-  
SIONER WOULD RECEIVE FROM THE OLD AGE INSURANCE SYSTEM

A SUPPLEMENT AMOUNTING TO 11 PERCENT OF HIS PENSION TO COVER THE MAJOR PART OF THE HEALTH INSURANCE CONTRIBUTION.

5. IN ADDITION, THE GOVERNMENT WOULD PROPOSE SUPPLEMENTARY MEASURES TO THE BUNDESTAG, IF, IN TWO CONSECUTIVE YEARS, ECONOMIC DEVELOPMENTS (WORKER EARNINGS, EMPLOYMENT AND UNEMPLOYMENT) DEPARTED SUBSTANTIALLY FROM THE GOVERNMENT'S MEDIUM-TERM ECONOMIC PROJECTIONS.

6. THESE NEW PENSION FUND PROPOSALS PROVOKED AN OUTCRY OF INDIGNATION FROM THE CDU/CSU OPPOSITION WHICH CHARGED THAT THE GOVERNMENT PLAN WOULD DESTROY THE BASIS OF THE PENSION SYSTEM AND ACCUSED THE GOVERNMENT OF CHEATING PENSIONERS AND WORKERS. THE CDU PRESIDIUUM CALLED A MASS MEETING IN BONN-BAD GODESBERG FOR MARCH 2 TO PROTEST THE GOVERNMENT PLANS. REPRESENTATIVES OF TRADE UNIONS AND WAR VICTIMS' ASSOCIATIONS (WHICH ALSO REPRESENT PENSIONERS AS A LOBBY) HAVE BEEN INVITED TO PARTICIPATE.

7. THE GERMAN TRADE UNION FEDERATION (DGB) AND THE GERMAN SALARIED EMPLOYEES UNION (DAG) ALSO OPPOSE THE GOVERNMENT PLAN. THE DGB EXPRESSED ITS WILLINGNESS TO COOPERATE IN DEVELOPING A JOINT SOLUTION WITH THE GOVERNMENT PROVIDED THAT ANY FINANCIAL CONSOLIDATION LIMITED OFFICIAL USE

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PROGRAM PRESERVES THE "INDISPENSABLE PRINCIPLES" OF THE DYNAMIC PENSION SYSTEM AND DISTRIBUTES THE FINANCIAL BURDENS EQUALLY AMONG ALL PARTIES. DGB VICE PRESIDENT GERD MUHR SPECIFICALLY WARNED AGAINST A PREVIOUSLY CONSIDERED PLAN TO MAKE FUTURE ADJUSTMENT RATES DEPENDENT UPON THE FINANCIAL RESERVES OF THE OLD AGE PENSION SYSTEM.

8. COMMENT: THE CDU/CSU OPPOSITION CAN BE EXPECTED TO MAKE THE GOVERNMENT'S PENSION FUNDING PROPOSAL AN ISSUE IN THE FORTHCOMING LANDTAG ELECTION CAMPAIGNS. THE SPD IS IN THE AWKWARD POSITION OF HAVING PROMISED THE ELECTORATE THAT "DYNAMIC" ADJUSTMENTS WOULD NOT BE ALTERED AND CONTRIBUTIONS WOULD NOT BE INCREASED. CHANCELLOR SCHMIDT REPEATED THESE ASSURANCES AFTER THE ELECTION. THE CDU/CSU IS UNLIKELY TO LET THE ELECTORATE FORGET THOSE STATEMENTS DESPITE THE LACK OF AN OPPOSITION POLICY TOWARD PENSION FUNDING SHORT OF RISKING A GROWING DEFICIT. THE CDU/CSU WOULD LIKE NOTHING BETTER THAN TO CONSOLIDATE THE OPPOSITION ON THE PENSION ISSUE INCLUDING THE PENSION LOBBIES AND THE TRADE UNIONS. THE DGB HAD SERIOUS DIFFERENCES WITH THE SPD/FDP COALITION OVER THE PENSION PROPOSALS. THE

UNIONS WOULD HAVE PREFERRED AN EARLIER RISE IN CONTRIBUTIONS OF 0.5 PERCENT TO BE SHARED EQUALLY BY WORKERS AND EMPLOYERS PLUS PENSIONERS FUNDING THEIR "MEDICARE" COSTS. DGB EXPERTS CALCULATED THAT THESE MEASURES WOULD HAVE RESTORED THE FINANCIAL VIABILITY OF THE SYSTEM WITHOUT MEDDLING WITH THE ADJUSTMENT FORMULA. ACCORDING TO DGB SOURCES, THE FDP COALITION PARTNER STRONGLY OPPOSED THE EARLIER CONTRIBUTION HIKE BECAUSE OF THE BURDEN IT WOULD PLACE ON SMALL BUSINESSES. DESPITE ITS DISAPPOINTMENT, THE DGB IS RELUCTANT TO JOIN THE CDU/CSU IN A CAMPAIGN AGAINST THE GOVERNMENT. DGB VICE PRESIDENT MUHR RECENTLY WARNED THAT THE PENSION ISSUE SHOULD NOT BE AN AREA FOR POLI-

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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
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